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SUBJECT: SECOND U.S.-EU HIGH LEVEL DIALOGUE ON CLIMATE
CHANGE, CLEAN ENERGY AND SUSTAINABLE DEVELOPMENT

Sensitive but Unclassified -- Entire Message

11. (SBU) SUMMARY. In a frank exchange on March 7, U.S. and European principals reviewed work on climate change under the Major Economies and UNFCCC Processes. U.S. principals secured EU Environment Commissioner Dimas' admission that current EU proposals will permit some EU Member States to record absolute increases in emissions by 2020. Both sides cited questions surrounding biofuels and agreed to cooperate in reviewing them, though the Commission also cited the "social impacts" of biofuels. The Commission clarified the proposed flow of proceeds from emissions trading auctions to Member States under the Commission's January 23, 2008 Climate Change legislative package. The U.S. delegation summarized recent U.S. legislation on climate change, under which the U.S. is demonstrably moving forward on the issue as aggressively as the EU. Both sides spoke positively of U.S. efforts on FutureGen, carbon capture and storage and near-zero emission coal, though the U.S. delegation sought clarification as to existence of EU budget resources in these areas. Both sides highlighted their efforts to address illegal logging, deforestation, and biodiversity.

12. (SBU) For next steps, both sides expressed support in principle for referencing climate change in U.S.-EU Summit document(s). Both sides agreed to issue a joint press statement on the day's HLD consultations (paragraph 41).

13. (U) The U.S. delegation was led by Paula Dobriansky, Under Secretary of State for Democracy and Global Affairs, Jim

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Connaughton, Chairman of the White House Council on Environmental Quality, and Dan Price, Assistant to the President for International Economic Affairs. The EU delegation was led by Janez Podobnik, Slovenian Minister of Environment and Spatial Planning (for the EU Presidency) and Stavros Dimas, European Commissioner for the Environment and Pierre Vimont, French Ambassador to the U.S. END SUMMARY.

The Major Economies Process (MEP)

14. (U) Assistant to the President for International Economic Affairs Dan Price restated the U.S. position that we see the purpose of the Major Economies Process as supporting and assisting the UN negotiations on climate change, not

launching an alternative negotiating forum.

15. (SBU) Price asked whether the EC would commit to a Leaders' Declaration under the MEP containing these six elements: a long-term global goal; legally binding, nationally determined mid-term goals (mid-term defined as approximately the years 2020-2030) backed by national plans; sectoral agreements; financing mechanisms and elimination of barriers to trade in clean energy goods and services; measurement and accounting at the facility-level; addressing deforestation; and highlighting adaptation. Commissioner Dimas was noncommittal, stating that one would have to review each item individually, such as, what sectoral approaches to pursue, and what mid-term targets to commit to. Both sides reaffirmed their support for the U.S./EU proposal at the WTO to eliminate barriers to trade in environmental goods and services.

16. (SBU) French Ambassador Vimont stated that all agree on the usefulness of the MEP, and said France looked forward to hosting the Third Meeting under the MEP in Paris. The program will consist of a workshop April 16 on sectoral approaches, and preparations on April 17-18 for the MEP Leaders' Summit in July. The agenda, still under discussion, is likely to include: seeking better definition of sectoral approaches; roadmap for technological cooperation; work to narrow positions on mid-term goals, including common and differentiated responsibility; and financing.

17. (SBU) Price added that the next meeting of some of the MEP parties will actually occur at Chiba, Japan, with work on the

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draft Leaders' Declaration. He said the European Union would be represented on the drafting committee by France, and that the committee would also include China, Brazil, South Africa, Japan, and the U.S.

The UNFCCC Process

18. (SBU) CEQ Chairman Jim Connaughton said that to receive Congressional assent to an international agreement on greenhouse gas emissions, the U.S. would need binding commitments from other countries including major developing countries. He urged a commitment in principle to this at the Major Economies Leaders' Summit. He said a commitment to take on binding commitments from other countries would also send a positive message to Congress as the Administration seeks \$2B in spending for the proposed Clean Technology Fund.

When pressed by Connaughton as to whether the EU supports binding commitments from all major economies, Dimas was non-committal.

19. (SBU) Connaughton argued that specific mid-term plans for each country should be left to the UN process, but that this summer should see agreement on *design* of an agreement that provides for national plans and sectoral approaches. Dimas argued that that, too, should be left to the UN process.

110. (SBU) Dimas criticized the U.S. for failing to ratify and implement the Kyoto Protocol. Connaughton noted the problem that Kyoto is not internationally binding in that it is not enforceable. Price added that Kyoto is flawed because it fails to recognize that even the EU and the U.S. together cannot stop global emissions increases, unless we draw in China and other major developing countries.

111. (SBU) Slovenian Minister Janez Podobnik suggested that developed countries should lead by example, cutting emissions in absolute terms.

The Mid-Term Goal

¶12. (SBU) Connaughton and Price questioned Dimas as to whether the EU holds that each developed country must achieve an absolute emissions reduction by 2020. They said the U.S. accepts that many countries, such as South Korea, Mexico, Greece, Portugal, Spain, and Italy, would find it impossible to reduce absolute levels of emissions by 2020. Price pointed out that each EU Member State was a Party to the Convention.

¶13. (SBU) Dimas argued that each European nation will make its contribution toward one (pan-European) target. But he conceded this means some EU Member States will be permitted under the EU's proposals to record an absolute increase in emissions by 2020.

¶14. (SBU) Connaughton said that, if it was unacceptable for the EU that the U.S. will not achieve absolute emissions reductions by 2020, he would urge that the EC's experts review our recently-enacted Energy Independence and Security Act of 2007 (EISA) and explain how our requirements could reasonably be increased. He also noted that if the EU presses the U.S. on absolute emissions reductions by 2020, we will insist that Austria, France, Ireland, and other EU Member States with energy profiles similar to that of the U.S., also take on these absolute emissions reductions.

Biofuels: Challenges and Criticisms

¶15. (SBU) Connaughton urged that the U.S. and Europe avoid a situation in which shipments of biofuels must be "checked at the border" to review for provenance. Although the U.S. currently imports a small amount of biofuels, the amount of imported biofuels could increase significantly. Connaughton urged that, rather than analyzing every batch and checking paperwork at ports of entry, developed countries need to engage on this potential problem with biofuels-exporting countries.

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¶16. (SBU) Both sides referenced the possible negative aspects of biofuels and agreed it would be good to work together on the topic. Dimas said the EU was grappling with the deforestation impacts of increased usage of biofuels. Notably, he also cited the "social impacts," including the impact on food price levels.

¶17. (SBU) Connaughton and EPA Associate Deputy Administrator Jason Burnett said the U.S. is confronting some of the same issues. They said that while the EU has proposed a criterion of 35% emissions reduction in order for biofuels to qualify under its standard, the U.S. EISA has three greenhouse gas thresholds: a 20% reduction is required for any eligible renewable fuel; 50% for advanced biofuels; and 60% for cellulosics.

¶18. (SBU) EISA also mandates that the U.S. review the indirect impact on land-use caused by cultivation of biofuel crops. U.S. Mission to the EU Minister-Counselor for Economic Affairs Peter Chase noted that C. Boyden Gray, Special Envoy to the European Union, has met with the EPA to attempt to get the U.S. and EU to look at the sustainability question together.

¶19. (U) Stephen Eule, Director of the Climate Change Technology Program in the Office of Policy and International Affairs at the U.S. Department of Energy (DOE), said that DOE is currently planning ethanol biorefineries with small-scale cellulosic activities.

Next Steps

¶20. (SBU) EUR/ERA Director William Lucas said we should give thought to how we wish to reflect our work together on the critical issue of climate change at the U.S.-EU Summit.

¶21. (SBU) Minister Podobnik urged that the Summit statement include a forward-looking statement of principles and reference the use of market-based instruments. He also urged that the next High Level Dialogue be held in one year in Europe. Dimas asked whether the climate and clean energy policy and measures forum might be held in April or May.

Emissions Trading

¶22. (SBU) Connaughton said he agrees that international emissions trading is a useful tool -- for those who choose it. But the U.S. does not endorse global carbon markets when not all countries have a cap because it creates an incentive for some nations to avoid making real commitments to reduce emissions, as some nations would wish to remain sellers of credits, not buyers. The system would suffer from moral hazard, as key developing nations would not aggressively commit so that they could continue to collect. Connaughton added that, although the EU has had some success in its Clean Development Mechanism (CDM), it is near-impossible under the U.S. domestic political process to transfer billions of dollars to China while raising electricity and gas prices for the average working American.

¶23. (SBU) Chase asked who would receive the money raised by the emissions trading system auctions under the January 23 European Commission climate change proposal. Dimas said the funds raised would go to the finance ministries of each Member State, under a complicated formula to allow the poorer nations to auction more than their climate-change needs. He said 20% of the resulting funds would be flagged, so that it *should* (emphasis added) go to such purposes as redistribution, education campaigns, CCS, adaptation, and funding for renewable energy. However, he noted, the drafting process had seen "shall" changed to "should."

U.S. Energy Reforms and Associated Spending Measures

¶24. (SBU) Connaughton said the U.S. mandatory mid-term commitments on climate change are locked into the recently

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enacted EISA legislation, which he summarized. Additionally, new U.S. spending commitments complement the EISA mandates. Preliminary estimates show EISA will prevent 6-10 billion metric tons of greenhouse gas emissions in the U.S. by 2030. Connaughton noted emissions from the non-OECD countries are projected to be double that of the OECD nations by 2050, highlighting the need to engage developed countries.

A 38-gigaton reduction in projected 2050 global carbon dioxide (CO2) emissions is needed to halve global emissions, an enormous amount, given that one gigaton of CO2 equates to the savings from 273 clean, zero-emission, coal-fired power plants, of which we currently have none. We are nowhere near the scale of what we need to reduce emissions.

¶25. (SBU) Connaughton added that first-generation biofuels will not significantly assist in meeting the EISA goals. Success of EISA depends on second-generation biofuels fulfilling their promise.

¶26. (SBU) Under EISA, 10% of projected future energy supply will be met by renewables. EISA contains a mandate of 20% renewable fuels usage for the U.S. Government itself, significant given that the USG alone is a bigger economic entity than most countries.

¶27. (SBU) EISA mandates a 40% increase in fuel efficiency by 2020. The U.S. has in the past relied more on gasoline than diesel, compared with the EU, because of air quality concerns associated with diesel. Connaughton noted the U.S. will begin to use more diesel now that we have clean diesel rules. This will pose an economic issue for the EU, as the EU currently purchases the U.S. diesel surplus.

¶28. (SBU) USG is working with localities to develop a model building code, to gain a 30% increase in energy efficiency for buildings. In appliance efficiency, EISA mandates new standards in every major category of appliance. EISA mandates a 70% improvement in lighting efficiency by 2020, mostly through phase-out of traditional incandescent bulbs. In response to a question from Dimas, Burnett said we are handling the issue of how to dispose of mercury in new high-efficiency light bulbs by working with industry to make the next generation of such bulbs mercury-free, and through a campaign to educate the public on disposal.

¶29. (SBU) Connaughton said that on the spending side, the USG proposes to spend this year \$7.4 billion on climate change. Loan guarantees are being established for advanced coal plants and large-scale renewable power generation. We are spending significantly to develop clean coal plant designs, which would have benefits worldwide. \$18B in loan guarantees will be allocated for new nuclear plants.

¶30. (SBU) Responding, Dimas criticized the U.S. for not achieving the emissions reduction goal for 2000 it had agreed per the U.S. signing and ratifying the 1992 U.N. Framework Convention on Climate Change. Dimas asserted that although 1990 has been agreed to as the reference year in multiple fora, the U.S. has increased emissions 16% since then, while the EU has reduced. Emissions have gone below 1990 levels even for the EU15 (the pre-2004 set of western European Member States, with economies more similar to that of the U.S.).

¶31. (SBU) Connaughton replied that the U.S. and EU are demonstrably moving forward on climate change equally aggressively. For example, EISA is 50% more aggressive on renewable fuels than what the EU has proposed. Connaughton said that under EISA the U.S. will not get down to 1990 emissions levels by 2020, but will later. The EISA legislation and associated budget commitments will, however, put U.S. emissions on the downward trajectory for the first time. Connaughton said he did not know when the U.S. will reach 1990 levels. He said that for Europe, 1990 as a reference year incorporates the early 1990s economic collapse of eastern Europe, which no policymaker would recommend be repeated; the UK's decision to move away from coal to natural gas, long before climate change was a policy issue; and the EU's use of diesel fuel, at the expense of air quality and human health. Price further pointed out that the Framework Convention's reference to reductions by 2000 was cast as a non-binding aim.

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U.S. Efforts on FutureGen, CCS, and Clean Coal

¶32. (SBU) Dimas asked about the restructuring of the FutureGen clean coal project and suggested that the U.S. cooperate with the EU and also China on pilot projects. Connaughton said the restructuring will ultimately result in a bigger program with more projects.

¶33. (SBU) Eule noted the Bush Administration has requested an increase in funding for Carbon Capture and Storage (CCS) research this year. Seven large-scale CCS demonstrations are planned, including one ethanol plant (ethanol production being a source of carbon). Chase added there has been one expert-level U.S.-EU dialogue on CCS and there will be

another March 31 in Washington. Eule noted the Administration has asked for \$622M for clean coal this year, the largest amount in over 25 years.

EU Budget for Clean Coal Research

¶34. (SBU) Connaughton expressed concern over reports that there were no EU budget resources dedicated to address this topic through 2013 (through the time period of the Seventh Framework). Dimas said only that the Seventh Framework has research funds through this period, and that the issue was addressed in part by the emissions trading scheme.

Methane to Markets and Energy Star

¶35. (SBU) Reviewing the Work Action Plan from the 2007 U.S.-EU Summit, Artur Runge Metzger, Head of Unit, Climate Strategy, international negotiation and monitoring of EU action, DG Environment, said the European Commission has acceded to the Methane to Markets Partnership and the work is going well. EPA Associate Deputy Administrator Burnett said the U.S. agreement with the EU on Energy Star for appliance efficiency is bearing fruit. Burnett offered to work with Europe to extend Energy Star to consumer electronics products.

Illegal Logging and Deforestation

¶36. (SBU) Dimas said that, like the U.S., the EU is working with developing nations on illegal logging, and suggested that the EU and U.S. could increase their effectiveness by working together.

¶37. (SBU) Connaughton cautioned that payments for "avoided deforestation" pose a moral hazard problem: one could easily end up paying to prevent deforestation in one region, only to push it into the next province. This also has potential to spur graft among local officials. Connaughton suggested that the problem of deforestation is in part the problem of more food from less land. We need to mobilize agricultural experts to convert agriculture in developing countries to our high-yield methods.

Biodiversity

¶38. On biodiversity, U/S Dobriansky highlighted such U.S. efforts as the President's Initiative Against Illegal Logging; U.S. aid to Indonesia to develop a national legality standard for timber harvesting; the recent MOU with China to address illegal logging and associated trade; our work plan to improve forest law enforcement and address illegal Mahogany exports in the context of our Free Trade Agreement with Peru; and the recent Brussels meeting between USTR officials and Commission representatives on this topic.

¶39. (SBU) Dimas said the EU is working on a global network of marine protected areas, given that much marine biodiversity is outside national jurisdiction, and urged the U.S. to work with the EU on this topic. U/S Dobriansky agreed. (Note: Dimas did not raise the EU's standing proposal for a

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